

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 IGA-02 L-03 H-01 PA-01
PRS-01 ITC-01 /097 W
-----251731Z 041459 /41

R 251706Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8556
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
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SUBJECT: GOVERNMENT'S VAT INCREASE PROPOSAL SOFTENED

SUMMARY: BOWING TO THE INEVITABLE, THE GOVERNMENT CUT
BACK ONE POINT ON ITS PROPOSAL FOR A VAT INCREASE IN
1978. THE PROPOSED PACKAGE OF TAX MEASURES NOW EQUALLY
BALANCES INCREASED BURDENS WITH RELIEF. FISCAL,
ECONOMIC AND POLITICAL FACTORS ALL PLAYED A ROLE IN THIS

DECISION, WITH THE FINAL CHAPTER YET TO BE WRITTEN.
SOME COMPROMISE NOW SEEMS POSSIBLE. END SUMMARY.

1. THE SPD AND FDP COALITION PARTNERS HAVE AGREED TO MODIFY THEIR PROPOSAL TO INCREASE THE VALUE ADDED TAX BEGINNING JANUARY 1978. THEY WILL NOW PUSH FOR A ONE PERCENTAGE POINT INCREASE (RAISING THE RATE FROM 11 TO 12 PERCENT) RATHER THAN THE TWO PERCENTAGE POINT HIKE THEY HAD BEEN PREVIOUSLY URGING UNDER FINANCE MINISTER APEL'S LEADERSHIP. THIS HALVING OF THE PROPOSED JUMP IN THE RATE MEANS THAT IF IT IS EVENTUALLY LEGISLATED, THE RESULTANT INCREASED REVENUES IN 1978 WOULD BE DM 5.25 BILLION. LEFT UNCHANGED AS PART OF THE GOVERNMENT'S TAX PACKAGE PROPOSAL IS TAX RELIEF TOTALING DM 5.1 BILLION. THE NET RESULT, THEN, OF THE GOVERNMENT'S MODIFIED PROPOSAL IS NEUTRAL RATHER THAN CONTRACTIONARY AS PUT FORTH IN THE EARLIER FORM.

2. THE GOVERNMENT CITES CHANGING FISCAL/ECONOMIC CONDITIONS FOR ITS REVISED POSITION ON THE VAT INCREASE. THE DM 3.7 BILLION GREATER THAN PREVIOUSLY ANTICIPATED ESTIMATED OVERALL 1977 TAX REVENUES, THEY SAY, MAKES LESS FISCALLY URGENT THE FULL RISE NEXT YEAR. ON THE OTHER HAND, THE CYCLICAL SITUATION NOW FORESEEN FOR NEXT YEAR WOULD MAKE THE ADDITIONAL TAX BURDEN LESS ADVISABLE THAN ORIGINALLY THOUGHT. ON THIS LATTER POINT THERE HAS BEEN VIRTUAL UNANIMOUS AGREEMENT OUTSIDE GOVERNMENT FOR SOME TIME.

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3. WHETHER THE NEW GOVERNMENT TAX PROPOSAL WILL FARE ANY

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 8557
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

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BETTER THAN THE PREVIOUS ONE, WHICH WAS BLOCKED IN THE
OPPOSITION-CONTROLLED BUNDESRAT, REMAINS TO BE SEEN.
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MUCH POLITICAL NEGOTIATION YET REMAINS. KEY TO THE
OUTCOME IS THE POSITION OF THE GOVERNMENTS OF LOWER
SAXONY AND THE SAARLAND, BOTH OF WHICH HAVE FDP-CDU
COALITIONS. PREVIOUSLY THESE TWO STATES WERE FULLY
ALIGNED WITH THE CDU/CSU CONTROLLED STATES ON THIS ISSUE
SO THAT THE OPPOSITION COULD EASILY BLOCK 26 TO 15 THE
GOVERNMENT'S TAX PACKAGE IN THE BUNDESRAT. IF THESE TWO
STATE GOVERNMENTS CAN BE PERSUADED TO GO ALONG WITH THE
NEW TAX PACKAGE FORMULA AND THE CDU/CSU STATES REMAIN
OPPOSED, THE BILL WOULD OBTAIN BUNDESRAT APPROVAL BY
A 23 TO 18 VOTE MARGIN. THE LOWER SAXONY OFFICIALS
(KIEP) HAVE SO FAR REACTED WITH WHAT APPEARS SYMPATHY,
SUGGESTING A COMPROMISE POSSIBILITY. ON THE OTHER HAND,
CDU ECONOMIC SPOKESMAN STOLTENBERG HAS REITERATED
OPPOSITION TO ANY VAT INCREASE. CSU LEADER STRAUSS HAS

YET TO BE HEARD FROM, BUT PREVIOUSLY HAD INDICATED THAT A PACKAGE PROVIDING FULLY OFFSETTING COMPENSATION ON THE TAX RELIEF SIDE FOR ANY VAT INCREASE WOULD NOT BE OPPOSED BY HIM. LINKED TO THE ISSUE IS THE STILL UNRESOLVED QUESTION OF THE SPLIT OF VAT PROCEEDS BETWEEN THE FEDERAL AND STATE GOVERNMENTS. THE FEDERAL GOVERNMENT MIGHT HAVE TO CEDE A BIT IN ITS DEMANDS FOR A LARGER SHARE IN ORDER TO BUY BUNDESRAT APPROVAL. MEANWHILE, THE BARGAINING GOES ON.

4. A FINANCE MINISTRY SOURCE TELLS US THAT THE CURRENT GOVERNMENT POSITION ON THIS ISSUE IS NOT LIKELY TO BE THE LAST ONE IN WHAT MUST BE CONSIDERED A CONTINUING BARGAINING PROCESS. HE SAID THAT ADDITIONAL TAX RELIEF MEASURES COULD BE TACKED ON SUBSEQUENTLY TO SWEETEN THE DEAL. HE THOUGHT THAT THESE WOULD HAVE TO MAINTAIN SOME "SOCIALY SYMETRICAL" BALANCE, HOWEVER, AND NOT BE SOLELY DIRECTED TOWARD THE ENTREPRENEURIAL SECTOR DUE TO CERTAIN SPD FACTIONS WHICH ALREADY FEEL UNHAPPY WITH THE CURRENT ARRANGEMENTS. THESE LATTER PROVISIONS CALL FOR TAX RELIEF OF DM 2 LIMITED OFFICIAL USE

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BILLION FOR BUSINESS AND DM 3 BILLION FOR INDIVIDUALS IN 1978.
STOESSEL

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Message Attributes

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Sent Date: 25-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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Disposition History: n/a
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